

Message Text

PAGE 01 STATE 113190
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C O N F I D E N T I A L STATE 113190

PASS VICE PRESIDENT'S PARTY

E.O. 11652: GDS

TAGS: OVIP (MONDALE, WALTER F.) EINV, ETRD, PLOS, ID

SUBJECT: VICE PRESIDENT'S TRIP: ADDITIONAL AND AMENDED
TALKING POINTS FOR MEETINGS WITH INDONESIAN LEADERS

1. DEPARTMENT UNDERSTANDS THAT GOI MAY RAISE ADDITIONAL
ISSUES/QUESTIONS DURING VICE PRESIDENT'S VISIT TO INDO-
NESIA. FOLLOWING NEW GUIDANCE IS TRANSMITTED ON CIVIL
AVIATION AND LAW OF THE SEA. ALSO INCLUDED ARE AMENDED
REPEAT AMENDED VERSIONS OF BACKGROUND AND TALKING POINTS
ON TIN AND RUBBER WHICH WERE PROVIDED IN BRIEFING BOOKS.

CONFIDENTIAL

PAGE 02 STATE 113190

2. AIR TRANSPORT AGREEMENT

(A) BACKGROUND

PRESENT 1968 US-INDONESIA AIR TRANSPORT AGREEMENT IS VIR-
TUALLY MORIBUND. PAN AMERICAN HAS FLOWN TO INDONESIA
SINCE 1957 BUT SUSPENDED SERVICE TO INDONESIA IN JANUARY
1977 BECAUSE OF (1) GOI'S REFUSAL TO ALLOW ROUTING FLEXI-
BILITY AS PROVIDED BY AGREEMENT AND (2) UK RESTRICTION
OF PAN AM SERVICE AT HONG KONG WHICH WAS KEY POINT ON

PAN AM'S THEN EXISTING ROUTE TO INDONESIA. INDONESIA'S SCHEDULED AIRLINE, GARUDA, DOES NOT SERVE US, BUT THE INDONESIAN CHARTER AIRLINE, MERPATI, HAS AUTHORITY AND

DOES OPERATE TO US. SEVERAL ROUNDS OF NEGOTIATIONS (LAST IN 1977) HAVE BEEN FRUITLESS IN RESOLVING DIFFERENCES. GOI SOUGHT FLYING RIGHTS FOR GARUDA TO SERVE LOS ANGELES, PREDETERMINATION OF CAPACITY, AND SINGLE DESIGNATION OF AIRLINES. USG REQUESTED SOMEWHAT BROADER ROUTE RIGHTS (INCLUDING INTERMEDIATE POINTS), OPERATIONAL FLEXIBILITY AND MULTIPLE DESIGNATION (FLYING TIGER ALSO HAS U.S. AUTHORITY TO SERVE INDONESIA). BECAUSE OF THE CURRENT LACK OF U.S. AIRLINE INTEREST IN SERVING INDONESIA NEGOTIATIONS ARE NOT NOW OF PRESSING CONCERN TO THE U.S. A RECENT LIBERAL AIR TRANSPORT AGREEMENT WITH SINGAPORE FURTHER LESSENS US AIRLINE INTEREST IN OPERATING TO INDONESIA. WE ARE WILLING TO MEET AGAIN IF GOI WISHES TO CONTINUE DISCUSSIONS, BUT IT IS UNLIKELY AGREEMENT COULD BE REACHED GIVEN OUR DIVERGENT AVIATION POLICIES.

(B) TALKING POINTS

CONFIDENTIAL

PAGE 03 STATE 113190

-- US POLICY FAVORS INCREASED COMPETITIVE OPPORTUNITIES FOR AIRLINES IN PROVIDING LOW-PRICED SCHEDULED AND CHARTER AIR SERVICES.

-- THE RESTRICTIONS WHICH INDONESIA APPEARS TO WANT IN A NEW BILATERAL AGREEMENT INVOLVING A GREATER DEGREE OF MARKET MANAGEMENT - E.G. PREDETERMINED CAPACITY AND SINGLE DESIGNATION OF AIRLINES - ARE ITEMS DIFFICULT FOR THE U.S. TO ACCEPT.

-- THE U.S. IS INTERESTED IN RESOLVING ITS AVIATION DIFFERENCES WITH THE GOI AND IS WILLING TO RESUME TALKS IF INDONESIA WISHES. BUT WE ARE NOT PRESSING FOR TALKS AT THIS TIME.

3. LAW OF THE SEA: TALKING POINTS

-- A SUCCESSFUL CONCLUSION OF AN LOS TREATY WOULD DEMONSTRATE THAT THE DEVELOPED AND DEVELOPING COUNTRIES CAN ARRIVE AT MUTUALLY ADVANTAGEOUS ARRANGMENTS FOR DEALING WITH GLOBAL PROBLEMS.

-- WE HOPE THAT THE CLOSE AND FRUITFUL CONSULTATIONS THAT HAVE TAKEN PLACE BETWEEN OUR DELEGATIONS IN THE PAST WILL CONTINUE.

-- THE UNITED STATES AGREED PRIVATELY AT THE SIXTH SESSION

WITH THE INDONESIAN DELEGATION TO SUPPORT A REASONABLE
ARCHIPELAGIC ARTICLE IN AN LOS TREATY WHICH CONTAINS
SPECIFIC PROVISIONS FOR TRANSIT PASSAGE THROUGH

ARCHIPELAGIC WATERS AND OTHER NEEDED PROTECTIONS FOR
NAVIGATION AND OVERFLIGHT. WE WOULD NOT BE ABLE, HOWEVER,
TO SUPPORT THE ARCHIPELAGIC CONCEPT OUTSIDE THE CONTEXT
OF A SATISFACTORY LOS TREATY WHICH INCLUDED AS WELL
ADEQUATE STRAITS TRANSIT PASSAGE.
CONFIDENTIAL

PAGE 04 STATE 113190

-- WE BELIEVE THAT A REASONABLE COMPROMISE ON DEEP SEABED
MINING IS TO ESTABLISH A PARALLEL SYSTEM OF EXPLOITATION
WHICH WOULD PERMIT STATES AND ENTITIES SPONSORED BY STATES,
AS WELL AS AN INTERNATIONAL ENTERPRISE, TO BEGIN MINING IN
THE SAME TIME FRAME. A TREATY THAT DID NOT PROVIDE ASSURED
ACCESS TO DEEP SEABED MINERAL RESOURCES FOR PRIVATE COM-
PANIES WOULD PROBABLY NOT OBTAIN SENATE CONSENT.

-- IN THE ABSENCE OF A TREATY WITH ACCEPTABLE SEABED
MINING PROVISIONS, MINING WILL UNDOUBTEDLY TAKE PLACE AS
AN EXERCISE OF HIGH SEAS FREEDOMS. IN SUCH A CASE, THE
LIMITATIONS CONTAINED IN THE LOS DRAFT TEXT FOR PROTECT-
ING THE INTERESTS OF LAND-BASED PRODUCERS OF THE MINERALS
INVOLVED (INCLUDING INDONESIA) WOULD NOT EXIST.

-- THE UNITED STATES CAN ACCEPT THE IDEA OF A REVIEW CON-
FERENCE TWENTY YEARS AFTER A TREATY HAS COME INTO FORCE,
BUT NOT ONE THAT WOULD RESULT IN THE CONVERSION OF THE
PARALLEL SYSTEM INTO A JOINT VENTURE SYSTEM WITHOUT THE
EXPRESS CONSENT OF THE PARTIES INVOLVED.

-- WE HAVE A COMMON INTEREST IN SEEKING A FINAL COMPROMISE
ON A SEABED MINING REGIME SO THAT OUR MUTUAL OBJECTIVES
CAN BE ACHIEVED.

-- WE HOPE TO HAVE THE SUPPORT OF INDONESIA FOR THE STRAIT
TRANSIT PASSAGE REGIME IN THE CURRENT TEXT, WHICH IS AS
IMPORTANT TO US AS THE ARCHIPELAGIC CONCEPT IS TO INDO-
NESIA. WE WOULD OPPOSE ANY EFFORT TO CHANGE THE EXISTING
STRAITS ARTICLES, BUT WE WOULD SUPPORT EFFORTS IN IMCO TO
ESTABLISH A TRAFFIC SEPARATION SYSTEM WITH PROVISIONS ON
UNDER KEEL CLEARANCE IN THE MALACCA STRAIT. WE DO NOT
CONFIDENTIAL

PAGE 05 STATE 113190

THINK IT WOULD BE WISE TO OPEN UP THE LOS TEXT IN THIS
AREA, GIVEN THE GENERAL AGREEMENT ON THE COMPROMISES
ALREADY WORKED OUT AMONG THE CONCERNED PARTIES AND GIVEN
OUR WILLINGNESS TO WORK WITH INDONESIA IN IMCO ON
SPECIFIC POLLUTION PROBLEMS.

4. TIN

(A) BACKGROUND

THERE HAVE BEEN FIVE SUCCESSIVE TIN AGREEMENTS SINCE 1955.

THE U.S. DID NOT PARTICIPATE IN THE PREVIOUS AGREEMENTS, BUT DID JOIN THE FIFTH AGREEMENT IN 1976 BASED ON OUR INTEREST IN THE STABILIZATION OF COMMODITY PRICES WHERE FEASIBLE AND OUR DESIRE TO WORK WITH THE THIRD WORLD ON ECONOMIC ISSUES. SINCE 1976, THE TIN MARKET HAS BEEN HIGHLY VOLATILE. DURING THE PAST TWO YEARS, THERE HAS BEEN AN ANNUAL DEFICIT OF APPROXIMATELY 20,000 METRIC TONS BETWEEN TIN PRODUCTION AND CONSUMPTION WHICH HAS LED TO SKYROCKETING PRICES. THIS HAS PARTICULARLY AFFECTED THE U.S. WHICH CONSUMES 26 PERCENT OF WORLD TIN PRODUCTION AND U.S. IMPORT PRICES ALMOST DOUBLED DURING THE PAST TWO YEAR PERIOD. THE PROJECTION FOR 1978 IS A CONTINUING DEFICIT AND A CONTINUATION OF HIGH PRICES. THE ONLY MEASURE THAT COULD STABILIZE TIN PRICES IN THE NEAR TERM WOULD BE A SUBSTANTIAL DISPOSAL OF TIN FROM THE GSA STOCK-PILE.

(B) TALKING POINTS

-- THE U.S. IS PREPARED TO CONSULT BILATERALLY WITH TIN PRODUCERS CONCERNING GSA DISPOSALS.

-- (AMENDED TALKING POINT) THE U.S. IS ALSO PREPARED, UNDER THE TERMS OF THE FIFTH INTERNATIONAL TIN AGREEMENT, TO CONFIDENTIAL

PAGE 06 STATE 113190

SULT MULTILATERALLY WITH TIN PRODUCERS IN THE INTERNATIONAL TIN COUNCIL (ITC). ON APRIL 14 THE ITC ESTABLISHED A WORKING PARTY ON DISPOSALS, OF WHICH BOTH THE U.S. AND INDONESIA ARE MEMBERS, WHERE WE WOULD EXPECT FURTHER CONSULTATIONS ON TIN DISPOSALS.

-- THE UNITED STATES EXPECTS TO INCREASE DISPOSALS OF SURPLUS TIN IN THE NEAR FUTURE. WE WILL SEEK TO HANDLE DISPOSALS IN A MANNER THAT WILL MODERATE CURRENTLY HIGH PRICES WITHOUT DISRUPTING TIN MARKETS.

-- WE LOOK FORWARD TO CONTINUED CLOSE COOPERATION WITH TIN PRODUCERS IN THE ITC IN ORDER TO INSURE INCREASING WORLD PRODUCTION OF TIN METAL TO MEET EXPANDED CONSUMER DEMAND.

5. RUBBER

(A) BACKGROUND

NATURAL RUBBER PRICES HAVE BEEN HIGHLY VOLATILE, CAUSED TO A LARGE EXTENT BY CHANGES IN INDUSTRIAL OUTPUT IN THE DEVELOPED WORLD. THIS VOLATILITY HAS BEEN A PROBLEM FOR PRODUCER COUNTRIES, SOMETIMES ADVERSELY AFFECTING EXPORT EARNINGS DIRECTLY AND PERIODICALLY CREATING HARDSHIPS FOR

SMALL FARMERS WHO ACCOUNT FOR MOST NATURAL RUBBER PRODUCTION. FROM TIME TO TIME, PRODUCING COUNTRIES HAVE SOUGHT BY THEMSELVES TO STABILIZE NATURAL RUBBER PRICES, BUT EFFORTS HAVE PRODUCED MIXED RESULTS. MAJOR IMPEDIMENTS HAVE BEEN LACK OF RESOURCES AND/OR COHESION AMONG PRODUCERS. IN NOVEMBER 1976, THE ASSOCIATION OF NATURAL RUBBER PRODUCING COUNTRIES (ANRPC), WHICH INCLUDES
CONFIDENTIAL

PAGE 07 STATE 113190

MALAYSIA, INDONESIA, THAILAND, SRI LANKA AND SINGAPORE, AGREED TO ESTABLISH A PRICE STABILIZATION SCHEME INCLUDING A SMALL BUFFER STOCK AND EXPORT CONTROLS. THIS AGREEMENT WAS RATIFIED IN DECEMBER 1977, BUT HAS NOT YET BEEN IMPLEMENTED. PRODUCERS PREFER AN EXPANDED PRODUCER/CONSUMER AGREEMENT AND HAVE SAID THAT IF SUCH AN AGREEMENT CAN BE NEGOTIATED, THEIR ARRANGEMENT WOULD BE TERMINATED. NATURAL RUBBER PRICES ARE EXPECTED TO REMAIN BUOYANT DURING 1978, REDUCING FURTHER THE POSSIBILITY THAT ECONOMIC PROVISIONS IN THE PRODUCER AGREEMENT WILL BE IMPLEMENTED.

THE CONSUMING NATIONS ARE INTERESTED PRIMARILY IN ASSURING RELIABILITY OF SUPPLY AT REASONABLE PRICES. IN THIS CONNECTION, MOST PROJECTIONS INDICATE A POTENTIAL SHORTAGE OF NATURAL RUBBER IN THE MID-1980'S. CONSUMERS HOPE THAT A RUBBER AGREEMENT, BY STABILIZING PRICES, WILL INDUCE INCREASED INVESTMENT IN NATURAL RUBBER, RESULTING IN EXPANDED SUPPLIES. IT WAS PRINCIPALLY ON THIS BASIS THAT THE US, THE WORLD'S LARGEST CONSUMER OF NATURAL RUBBER, DECIDED TO ENTER NEGOTIATIONS FOR A STABILIZATION AGREEMENT.

FURTHERMORE, OUR VULNERABILITY IN AN AGREEMENT TO ANY PRICE-HIKING AMBITIONS ON THE PART OF PRODUCERS IS LIMITED BY OUR EXTENSIVE SYNTHETIC RUBBER CAPACITY. SEVENTY-FIVE PERCENT OF US RUBBER CONSUMPTION IS SATISFIED BY THE SYNTHETIC PRODUCT.

(NEW PARAGRAPH) THE US STRATEGIC STOCKPILE CONTAINS APPROXIMATELY 120,000 LONG TONS OF RUBBER. A NEW GOAL OF 513,000 LONG TONS OF RUBBER WAS ESTABLISHED IN OCTOBER 1976 AND REAFFIRMED FOLLOWING A WHITE HOUSE REVIEW OF STOCKPILE POLICY IN OCTOBER 1977.

(B) TALKING POINTS

CONFIDENTIAL

PAGE 08 STATE 113190

-- THE US WAS PLEASED WITH THE RECENT PRODUCER/CONSUMER DECISION TO ENTER NEGOTIATIONS OF A NATURAL RUBBER PRICE STABILIZATION AGREEMENT. WE BELIEVE THE DECISION IS A SIGN OF PROGRESS IN THE UNCTAD INTEGRATED PROGRAM FOR COMMODITIES.

-- THERE ARE STILL A NUMBER OF DIFFICULT ISSUES WHICH WILL REQUIRE CLOSE ATTENTION DURING THE NEGOTIATIONS SCHEDULED FOR NOVEMBER 1978. AMONG THESE ARE THE SIZE OF THE BUFFER STOCK, THE USE OF EXPORT CONTROLS AND THE METHOD OF FINANCING. WE BELIEVE CAREFUL PREPARATIONS ON THESE AND OTHER ISSUES WILL HELP TO FACILITATE A POSITIVE OUTCOME TO THE NEGOTIATIONS.

-- MOST PROJECTIONS INDICATE THAT NATURAL RUBBER WILL BE IN SHORT SUPPLY AT CURRENT PRICES IN THE MID-1980'S. WE HOPE THAT AN AGREEMENT, BY PRODUCING A MEASURE OF PRICE STABILITY, WOULD INDUCE PRODUCING COUNTRIES TO MAKE THE REQUIRED INVESTMENT IN THE NEAR FUTURE TO BRING NEEDED ADDITIONAL SUPPLIES ONTO THE MARKET IN THE NEXT DECADE.

(NEW TALKING POINTS)

-- THE DEFICIT OF 393,000 LONG TONS IMPLIES THAT GSA WILL BE IN THE MARKET WITH AN ACQUISITION PROGRAM FOR RUBBER. DISPOSAL OF RUBBER IS NOT CONTEMPLATED.

-- HOWEVER, THE RUBBER ACQUISITION GOAL IS NOT CONSIDERED A PLANNED COMMITMENT BY THE US TO BUY SPECIFIC QUANTITIES OF RUBBER; RATHER, IT IS A FLEXIBLE TARGET TOWARD WHICH PROGRESS WILL BE MADE AS LONG AS POLICY GUIDANCE AND OTHER FACTORS REMAIN THE SAME. CHRISTOPHER

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